

VZCZCXYZ0034
RR RUEHWEB

DE RUEHQT #0315/01 0951102
ZNR UUUUU ZZH
R 041102Z APR 08
FM AMEMBASSY QUITO
TO RUEHC/SECSTATE WASHDC 8704
INFO RUEHBO/AMEMBASSY BOGOTA 7477
RUEHCV/AMEMBASSY CARACAS 2970
RUEHLP/AMEMBASSY LA PAZ APR LIMA 2523
RUEHGL/AMCONSUL GUAYAQUIL 3464
RUEATRS/DEPT OF TREASURY WASHDC

UNCLAS QUITO 000315

SIPDIS

SENSITIVE
SIPDIS

TREASURY FOR MEWENS

E.O. 12958: N/A
TAGS: [ECON](#) [EMIN](#) [ELAB](#) [EINV](#) [EC](#)
SUBJECT: ECUADOR ECON WEEKLY: WORLD CLASS GOLD DEPOSIT,
SUBCONTRACTING BANNED, TAX LAW, SUPERMARKET DISCOUNTS

REF: QUITO 307

¶1. (U) The following is a weekly economic update for Ecuador that reports notable developments that are not reported by individual cables.

Mining Developments -----

¶2. (U) The press reported for the first time on March 14 that Aurelian Resources (Canada) had discovered the world's largest gold deposit in southeastern Ecuador. Post is aware of this from contacts with the Canadian embassy; the deposit reportedly holds just over 13 million ounces of gold and 22.4 million ounces of silver.

¶3. (SBU) A contact at another mining company told us that Aurelian is looking for a buyer for its concession. Perhaps in a related move, the U.S. office of the South African mining company Gold Field requested a meeting with the Embassy to review the mining and investment climate, but postponed their visit because of the "current political situation in Ecuador."

¶4. (SBU) According to industry contacts and officials at the Ministry of Mines and Petroleum, the government is attempting to renegotiate contracts with the four largest foreign mining companies in Ecuador, including Aurelian. A key element of the renegotiation would be royalty payments (which are not required by current law). A ministry of Mines official told us that the government is looking at royalties in the range of five percent of gross revenue. He claimed that three of the four companies had made contract proposals.

Assembly to Eliminate Subcontracting -----

¶5. (U) The Constituent Assembly has announced that it is working on a mandate to eliminate subcontracting and hourly contracts (reftel). The Assembly cites its aim as improving workers' rights. Almost 435,000 employees in Ecuador hold third-party contracts (due primarily to complicated labor regulations), and over eighty percent work in the private sector.

¶6. (U) Pilar Moncayo of the National Subcontractors' Federation says eliminating third party contracts will bring an immediate jump in Ecuador's unemployment and underemployment rates. Industry sources note that better regulating third-party subcontractors would be a more effective solution. Minister of Labor, Antonio Gagliardo, defended the Assembly's resolution, saying it would not harm national production.

Revisions to New Tax Law

¶17. (U) On March 25, following a meeting with President Correa and several inquiries from the private sector, Ecuador's Internal Revenue Service (SRI) announced the revision of five parts of the new tax law. Changes will be made to the value added tax (VAT), tax on currency outflows, income tax, special consumption tax, leasing depreciation rates and taxes on leasing contracts, although details of the changes have not been made public.

¶18. (U) Representatives from the productive sector welcomed the decision, saying that the GOE had taken note of their requests.

GOE Combats Rising Cost of Groceries

¶19. (U) To minimize the impact of price increases on food staples, the GOE and several private supermarkets introduced on March 22 the Partner Saving Plan. The GOE will partner with three private companies to give beneficiaries an 8% discount on purchases of \$60 at Aki, Tia and Mi Comisariato supermarkets beginning April 7. Beneficiaries will be drawn from those that currently receive the government's "Human Development Bond" (a targeted income transfer for the poor). As part of the plan, the GOE plans to give micro credits to 130,000 small and medium grocery stores.

¶10. (U) On March 26, the GOE signed an agreement with milk producers to produce a new low cost line of powdered milk. In addition, Correa has announced that the GOE will continue to seek agreements with other private companies to produce low cost lines of basic consumer goods. The government will use the National Development

Bank (Banco Nacional de Fomento) to subsidize the sale of 40,000 tons of imported rice; the first deliveries were made in Quito on April 2, although some expectant purchasers complained that they were not on the list of beneficiaries.

¶11. (SBU) Comment: the government appears to be shifting from its initial tendency to impose controls (for example, price controls on milk and an export ban on rice), and is working with the private sector to cooperatively develop more targeted programs to help poor consumers. It remains to be seen which tendency will prevail if food prices continue to rise, which they probably will. End comment.

JEWELL